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ABSTRACT

A profile of the economy and efficiency of the White Plains City School District is offered in this report. Specifically, a financial audit was conducted to answer the following question: Has the district acquired, protected, and used its resources economically and efficiently? Selected district practices were audited by the New York Office of the State Comptroller for the period July 1, 1990, through April 30, 1992. The audit identified the following weaknesses in the district's facility operations and maintenance program: weak oversight of capital projects, high staffing levels, high operating and energy costs, and lack of a 5-year maintenance plan. With regard to transportation services, major contracts have not been recently bid, contracting procedures need improvement, and a route and fuel consumption monitoring system is needed. With regard to controls over equipment, the district lacks formal policies and procedures and could not account for a substantial amount of equipment. Finally, the district lacks a formal employee sick-leave policy and a comprehensive sick-leave monitoring program. Fifteen recommendations are offered. (LMI)

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State of New York
Office of the State Comptroller
Division of Management Audit

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WHITE PLAINS CITY SCHOOL DISTRICT

MANAGEMENT CAN REDUCE OPERATING COSTS BY STRENGTHENING POLICIES AND PROCEDURES

REPORT 92M-483

EA 024 929

Edward V. Regan
Comptroller

State of New York
Office of the State Comptroller

Division of Management Audit
Division of Municipal Affairs

Report 92M-483

To the President and Members of the Board of Education and the Superintendent of the White Plains City School District Westchester County, New York:

The following is our report on the economy and efficiency of the White Plains City School District's operations.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

Office of the State Comptroller
Division of Management Audit

January 20, 1993

Executive Summary

White Plains City School District - Management Can Reduce Operating Costs by Strengthening Policies and Procedures

Scope of Audit

The White Plains City School District (District) provides elementary, middle and secondary education to 5,134 students at nine locations. The District has 911 employees, including 409 teachers. The District's operating budget for the 1991-92 school year was about $76 million. District operations are governed by the Board of Education, which sets overall policy and approves significant transactions. The day-to-day operations of the District are administered by a Superintendent, who reports directly to the Board.

Since 1990, the District has undergone a major renovation and expansion program, with an estimated completion cost of $45 million. The District has also experienced significant turnover in senior administrators in recent years.

We audited the economy and efficiency of selected District activities for the period July 1, 1990 to April 30, 1992. Our audit addressed the following question:

- Has the District acquired, protected and used its resources economically and efficiently?

Audit Observations and Conclusions

We found that District management can achieve cost savings through improved management practices in a number of administrative and support functions.

We identified weaknesses in several aspects of the District's facility operations and maintenance program. For example, District management did not use an open and competitive process to secure the professional services required for the District's extensive capital construction program. Moreover, the District may have incurred more than $500,000 in excessive design costs, as a result of poorly developed consultant payment terms. Also, the District employed 12 percent more custodial staff than recommended by industry standards as of June 30, 1991. The cost incurred for the excess staff is about $255,000 annually. In addition, the District

needs to improve its monitoring of energy costs and develop a formal long-term maintenance program. (See pp. 3-8)

We found that the District has not sought competition for its major pupil transportation contracts, which cost almost $2 million a year. For several years, District management has extended older agreements (as allowed by the State Education Department) rather than periodically open them to the bidding process. When the District last opened its two largest contracts for bid, vendors were given only 14 days to respond. This is insufficient time for competitors to evaluate bid specifications and submit a responsive proposal. Not surprisingly, the incumbent contractor was the sole bidder on the contracts. Also, the District had no systems to review the efficiency of bus routes and to verify the amount of fuel used by contractors. (See pp. 9-14)

We found that the inventory control system does not adequately protect the District's $11.8 million investment in equipment from theft, loss or abuse. The District lacks basic equipment controls such as written policies and procedures, identification tags, relocation or transfer records, and periodic physical inventories. Also, our testing indicated that the equipment control records are not up-to-date or accurate. We were unable to locate 23 (17 percent) of 137 items of equipment selected for testing. The 23 items cost $10,613 and included televisions and video cassette recorders. District officials confirmed that nine of the 23 items were stolen. Because the control system was weak, we could positively identify only 35 (26 percent) of 137 sampled equipment items as present in the locations indicated by the records. (See pp. 15-20)

The District does not have a formal sick leave policy and a comprehensive sick leave monitoring program. Consequently, management is unable to identify and control employee sick leave abuse. We found that 203 (42 percent) non-faculty employees charged 3,051 days (78 percent of the total for all non-faculty employees) of sick leave or 15 days of sick leave on average for the 1990-91 year. Our reviews of the files of 25 employees who had low sick leave balances indicated that only one file contained documentation to support the employee's sick leave charges. (See pp. 21-23)

Comments of District Officials

District officials did not provide a formal response to the draft audit report.

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Introduction

Background

The White Plains City School District (District) is located in Westchester County and comprises five elementary schools, two middle schools, a high school and an alternative school program. The District's schools had a total enrollment of 5,134 students for the 1991-92 school year.

The District's operating budget for the 1991-92 school year was about $76 million. The District has 911 employees, 409 of whom are teachers. A seven member Board of Education oversees District operations and sets District policy. The Board approves the hiring of all school principals and key administrative personnel and also approves the District's major contracts and expenditures. The day-to-day operations of the District are administered by a superintendent, who reports directly to the Board.

Since 1990, the District has undergone a major renovation and expansion program, with an estimated completion cost of $45 million. The District has also experienced significant turnover in senior administrators in recent years.

Audit Scope, Objectives and Methodology

We audited the selected District practices for the period July 1, 1990 through April 30, 1992. The overall objectives of our economy and efficiency audit were to determine (1) whether the District acquires, protects, and uses its resources economically and efficiently, (2) the causes of inefficiencies and uneconomical practices, and (3) whether the District complies with laws and regulations concerning economy and efficiency. To accomplish our audit objectives, we reviewed applicable laws, policies, procedures, rules and regulations interviewed responsible managers and staff and analyzed available records.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the District which are included within the audit scope. Further, these standards require that we understand the District's internal control structure and its compliance with those laws, rules and regulations that are relevant to District operations which are included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating

records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

Our consideration of the District's internal control structure focused on the control environment, which is defined as the collective effect of various factors in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. The control environment reflects the overall attitude, awareness and actions of management concerning internal controls and their emphasis in the organization. We noted some deficiencies in the internal control structure and its operation, as well as matters relating to compliance with other District policies, that should be addressed by District management. These matters are presented throughout the report.

Response of District Officials to Audit

Draft copies of the matters included in this report were provided to District officials for review and comment. We considered their comments in preparing this report.

We also provided District officials with a copy of the draft audit report and asked for written comments to the findings and recommendations. District officials did not provide a formal response to the draft report.

The Board of Education has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board may, in its discretion, provide the State Comptroller a written response to the findings and recommendations contained in this report. We strongly urge the Board to prepare a corrective action plan which would be available for public review in the clerk's office and the Office of the State Comptroller.

Construction Management and Facility Maintenance Programs

The District owns and maintains nine schools, two administration buildings and a barn. The District's buildings include approximately 1,270,000 square feet and are located on approximately 167 acres.

The District's Facilities and Operations Department (department) maintains and improves the District's buildings and grounds. The department is responsible for cleaning and maintaining buildings and grounds, for conserving energy and for operating buildings efficiently. Further, department management recommends to the District the contracts for the architect and construction manager for capital construction projects and also monitors the progress of ongoing construction activities.

The department's budget for the 1991-92 school year is $7,080,297. The personal service costs for the department's 91 employees totaled approximately $3.9 million for the year ended June 30, 1991.

We reviewed the adequacy of management's procedures for monitoring the capital construction and controls over operating and energy costs. We found deficiencies in several aspects of the District's overall operations and maintenance program. Specifically, District management did not :

- promote an open and competitive process to secure the professional services required for the District's extensive capital construction program;
- negotiate appropriate terms for paying the architect who designed the additions and alterations;
- evaluate staffing levels of maintenance personnel to determine if they are commensurate with workload demands;
- analyze total operations and maintenance costs as well as energy costs to identify inefficiencies; and
- establish a five-year maintenance plan and a corresponding budget to coordinate maintenance projects, track actual costs, and monitor the progress of specific projects.

As a result of these deficiencies the District has probably incurred unnecessary costs. We believe that significant future cost savings or

cost avoidances could be achieved if the District employed more effective management practices.

Management Oversight of Capital Projects Was Weak

The District began a major system restructuring in 1990 which required both new facilities and alterations to existing schools at an estimated completion cost of $45 million. We reviewed the District's bidding practices, the contracts awarded, and the costs for architectural services, construction management and actual construction. We found that the District's procedures for selecting and compensating the architect and construction manager were poor.

Architectural Services

While contracts for professional services are not required to be competitively bid, it is still in the public interest to secure services at a reasonable price. A Request for Proposal (RFP) process permits contracts to be negotiated based on the contractor's demonstrated competence and qualifications and at fair and reasonable fees.

District policy calls for the selection of architectural services from a limited list of consultants approved by the Board. The Superintendent develops the criteria and recommends the Department's limited list of architectural firms to the Board.

We found the following deficiencies in the District's procedures to secure the architectural services.

- The District did not call for proposals for all the addition and alteration design work at eight District schools, estimated to cost $45 million. The District retained the same architect it had selected in 1986 for roof and masonry work. Thus, the architect was not formally selected by the Board. Given the magnitude of the expenditures involved, the District should have undertaken a comprehensive competitive procurement process for such a large capital project. We reviewed documentation submitted by this architect with his 1986 bid and determined that the District's project alone would cost almost twice the value of all the government projects he had designed over the previous decade. Also, there was no indication of any non-government experience that would have qualified the architect to design a project as large as the one planned by the District. Thus, the District awarded the design contract without competitive proposals to an architect who apparently had not previously designed a project this large.

- District policy section 7211.4 states, "A separate contract shall be signed for each project with the architect selected by the Board." However, District management did not fully comply with this

policy. The contract (dated March 23, 1991) for architectural services contains provisions to include work that commenced on January 1, 1990. Consequently, the architect was working with the District for over a year without a contract.

... the District could have negotiated with the architect for a lower fee rate and lower design costs.

- Further, the District could have negotiated with the architect for a lower fee rate and lower design costs. The architect's fee schedule is a sliding scale based on the approved cost estimate or total construction cost. The fee rate incrementally decreases as construction costs increase. The general parameters of the fee schedule are: 12.50 percent for work under $70,000; various rates (by specific ranges) declining to six percent for work between $9 and $10 million; and a negotiated fee for work over $10 million.

The architect's total fee is based upon fifty percent of the estimated and fifty percent of the actual construction cost. Since the estimated construction cost was prepared by the same architect who received the design contract for actual construction, the architect had a disincentive to conservatively estimate the total construction cost. Some public construction management agencies limit the amounts of estimated and/or actual costs that can be used as a basis for design payments. However, the District's design contract had no provision to adjust payments to the architect if actual costs were significantly lower than estimated costs. Since the actual total costs for the four schools (George Washington, Mamaroneck, Post Road and Ridgeway), where construction has been completed, were $5.3 million, or 25 percent less than the estimated costs of $21 million, the District likely incurred excessive design costs.

... since the fee rate for projects of $9-10 million was 6 percent, the District's design costs would have been at least $577,000 less.

To determine the amounts of the architect's fees, the contract treated each school as a separate project. Using the sliding scale, this method resulted in multiple smaller costs to which higher fee rates for design services were applied. This resulted in higher payments to the architect. If the District had negotiated a fee based on the combined total actual costs for the four schools and applied a rate commensurate with that amount, it could have avoided a significant amount of design cost. For example, since the fee rate for projects of $9-10 million was 6 percent, the District's design costs would have been at least $577,000 less. Due to the magnitude of the total cost of its capital construction program, we believe that the District had sufficient leverage to negotiate an even lower fee rate, and thereby substantially reduce its construction design costs.

The District's chief financial officer advised us that the District did not meet the terms of an informal agreement made in June 1989 which would have allowed the District to treat all construction projects as a whole, and therefore, to obtain a discounted fee. District officials

further told us that cash flow factors impacted project planning and precluded the District from obtaining the design services under more favorable terms. However, the District had no quantitative analysis which demonstrated that the additional design costs were offset by cost savings derived from other aspects of the District's capital program. We believe the District could have obtained more favorable terms for design work through better planning.

Construction Management Services/Construction Contracts

The original contract for construction management services was to oversee $18 million in construction at five schools. When the District undertook construction at two more schools at an estimated cost of $17 million, it amended the contract to include the additional services. The amendment increased the construction manager's fee from about $500,000 to about $1,000,000. We believe that the oversight of construction activity totaling $17 million warranted using the RFP process. The District may be incurring excessive cost because it did not obtain competition for these services.

Staffing Levels Were Higher Than Industry Standards

Sound management practices include periodic evaluations of the reasonableness of staffing levels and staff deployment. However, we found no evidence that department or District management had periodically made such assessments. The department Director has staffing formulas published by industry consultants that he last used about eight years ago. However, the Director has used informal review, rather than formal analysis, to assess the efficiency of staff deployments in more recent years.

We estimate that the annual cost for these 6 additional custodians was about $255,000, including fringe benefits.

We examined the number of staff employed by the District at its nine school buildings as of June 30, 1991. According to a published industry standard, total staffing should be based on an expected average productivity of 2,500 square feet per staff-hour to obtain acceptable levels of cleanliness. However, the department had 57.5 full-time equivalent (FTE) custodians at nine schools, 12 percent more than the 51.5 FTE custodians needed, according to the industry standards. We estimate that the annual cost for these 6 additional custodians was about $255,000, including fringe benefits.

District officials advised us that they added five more custodians to the maintenance staff shortly after June 30, 1991 due to the District's construction program. Subsequent to June 30, 1991, the District brought additional building space on line, as construction was completed, which required additional custodial service. We believe that District officials should assess current needs for custodial services by applying the industry standard to existing staffing levels, particularly

before hiring more staff as new building space is placed into operation.

Facility Operating and Energy Costs Were High

The District spent in excess of $5 million for operating and maintenance costs, including about $1 million for fuel oil, electricity and natural gas, during the 1990-91 school year. Department managers should monitor and evaluate operating and maintenance costs, including energy costs, to identify potential inefficiencies. We found that department managers do not utilize available cost information to identify District buildings which may not be operating efficiently.

- Total Operations and Maintenance Costs

We calculated the total operations and maintenance costs for each building. Our analyses of these costs show wide variances among the District's buildings, ranging from $1.92 per square foot at the Rochambeau school to $4.89 per square foot at the Mamaroneck school. The two administrative buildings had costs of $5.02 and $15.26 per square foot for Dammann House and Education House, respectively.

Our analyses of these costs show wide variances among the District's buildings, ranging from $1.92 per square foot at the Rochambeau school to $4.89 per square foot at the Mamaroneck school.

- Energy Costs

The Department also needs to implement a system to monitor energy consumption to identify unusual variances and ensure that all District buildings are energy efficient. Department officials have not performed such analyses.

We calculated energy costs for each building and found that costs for fuel oil, electricity and natural gas varied greatly among District buildings. During the 1990-91 school year, total energy costs varied from a high of $1.21 per square foot at the Ridgeway School to a low of $.43 per square foot at the Rochambeau School. During the same period, the Education House had energy costs of $1.39 per square foot.

The District Lacks a Five Year Maintenance Plan

State Education Department Regulations require each school district to prepare a five-year capital assets preservation plan, and to update the plan annually. The plan should include estimated expenses for current or proposed construction, operations and maintenance and energy consumption. The Regulations also require a report on the condition of each school facility and any specific preservation plans for school buildings.

We found that District management has not complied with the Education Department's Regulations: the plan is not updated in a

timely manner, it does not address matters of operations, maintenance and energy consumption and does not provide the required information for each individual District facility.

Further, District policy requires formal, periodic evaluations of school facilities. These inspections, along with long term plans for capital construction should be regularly incorporated into a School Facilities Master Plan. The District, however, has not complied with this policy, nor has it prepared an adequate five-year maintenance plan.

The department's Director attributed the lack of a plan to a shortage of manpower, time and funds. However, without a formal five-year maintenance plan, we question how District management can effectively control and monitor the schedules, budgets, costs and completion of maintenance projects.

Recommendations

1. Follow a request for proposals process to secure professional services for major construction projects.

2. Develop contract terms which ensure that the District receives consultant services at a reasonable cost.

3. Formally assess the District's custodial staffing needs. Redeploy or reduce staff as appropriate.

4. Periodically analyze the operation, maintenance and energy costs of each District facility to identify facilities whose costs may be excessive. Take appropriate action where necessary.

5. Prepare and annually update a formal five-year maintenance plan which details the condition of each District facility and notes the anticipated maintenance and/or construction required.

Management of Transportation Services

The District provides transportation services to approximately 3,400 students and obtains these services from private contractors. The District enters into one major contract to provide district-wide transportation services for most of these students and negotiates a number of small contracts to provide transportation to handicapped students and for other purposes. The District's transportation contracts totaled $3.3 million for the fiscal year ended June 30, 1991.

We found that the District's contracting procedures do not promote competition for pupil transportation services. Since competition tends to ensure the lowest prices, the District may be paying too much for the services it receives. For example, the District does not routinely open transportation contracts for rebidding, choosing instead to grant one-year extensions to existing contracts. Additionally, when the District last opened its two major transportation contracts for bids, vendors were given only 14 days to respond to the bid proposals. Not surprisingly, the existing contractor was the only bidder. Also, we found that the District has no system in place to review the efficiency of bus routes and to verify the amount of fuel consumed.

Major Transportation Contracts Have Not Been Recently Bid

The Board of Education is required by the Education Law to provide necessary transportation to District students. The Board has delegated this responsibility to the Department of Business, which should seek to provide this service in a cost effective manner. A properly administered competitive bidding process can obtain the lowest prices, as well as guard against favoritism and impropriety in the award of contracts.

We found that the District does not routinely open its major transportation contracts for bidding. The average age of contracts in effect for the 1991-92 fiscal year was five years, with the oldest awarded in 1979. One contractor has been awarded 32 of the District's 34 transportation contracts.

...the District does not routinely open its major transportation contracts for bidding.

Generally, the District lets transportation contracts for a one year term and extends the contracts on an annual basis thereafter. The Education Law allows districts to extend such contracts on an annual basis indefinitely, subject to the Commissioner's approval. All District contract extensions have received approval by the State Education Department. The law also permits a contract to be increased by an amount not to exceed the regional consumer price index, provided the contractor can show that there has been an equivalent increase in his costs of operation.

District officials claim that the contract extensions have saved money since the annual increases granted have been less than the contractor's cost increases. They state that the District's current transportation costs per vehicle are lower than those of other school districts in the region. As such, District officials are reluctant to open their major transportation contracts to bid. They believe that the contractor may use a request for proposal to raise his contract amount over the current price.

However, the District's per student transportation costs are higher than the median per student cost for districts (which primarily contract for transportation services) in the region because of program factors that are unique to the District. For example, the District has a limited choice program that allows parents to send their grade school children to a District school other than the one in the immediate vicinity of their home. In addition, District officials advised us that they restrict buses, with a rated capacity of 66 students, to transport a maximum of 44 students. Officials also limit bus routes to a maximum of 40 minutes. These factors increase the number of buses required by the District, thus increasing the District's overall transportation costs.

Experience shows that competition generally produces lower prices.

Experience shows that competition generally produces lower prices. For example, in an audit of the State Office of General Services, we found that bid amounts decreased as the number of bidders for a contract increased. Specifically, construction contracts with three or more bidders were 18 percent less costly than contracts awarded on a single bid basis. Recent biddings of the District's smaller transportation contracts have generated more than one bid. The last transportation contract issued in 1991 received several competitive bids and was not awarded to the contractor with the majority of the transportation contracts. This suggests that the District may be able to generate competition on the larger contracts as well, if they were re-bid in a manner encouraging competition.

District Transportation Contracting Procedures Need Improvement

Public advertising of needed services is an effective way to notify potential bidders and solicit a maximum number of bids. However, bidders must receive clear contract specifications well in advance of the bid opening to permit them to prepare complete and responsive bids. Bidders must also be given sufficient time between the date of the contract award and the date that service is required to make the arrangements necessary to provide the services prescribed by larger contracts.

Section 103 of the General Municipal Law requires that there be a minimum of five days between bid advertising and bid opening. However, there is no statute or regulation governing how much time

should be provided for a contractor to make the necessary arrangements to perform the service.

In the Comptroller's statewide audit of school district transportation costs (Report 91-S-94, issued January 15, 1992), we concluded that four weeks (or less) between bid advertising and bid opening was not sufficient for bidders to prepare complete and responsive bids. In addition, a transportation contractor advised us that one year contracts limited competition, because start-up costs incurred by a new provider might not be recovered in one year. We believe that brief bidding periods and one year contracts are detrimental to competition and provide unfair advantages to existing contractors.

The District's two major transportation contracts totaled about $1.9 million for the 1991-92 school year. District officials last opened these contracts for bid in 1986. The contracts were for one year and officials have extended them annually thereafter. We found, however, that contractors had only 14 days to review the specifications and submit their bids. Although this met the legal requirement, we believe that 14 days was not sufficient time for potential bidders to respond. Furthermore, potential bidders may have been discouraged by the one-year contract term.

... we believe that 14 days was not sufficient time for potential bidders to respond. Furthermore, potential bidders may have been discouraged by the one-year contract term.

To perform stipulated services, prospective contractors would also need sufficient lead time from contract award to contract performance to purchase new vehicles, if necessary, and to hire qualified drivers. According to the State Office of General Services, prospective contractors should expect that delivery of new vehicles may take six months from the order date. Existing contractors will have unfair advantage if the District does not solicit bids early enough for new bidders to purchase vehicles and hire drivers, if necessary.

The following example illustrates how the District's award process probably discouraged competition for transportation contracts.

The District advertised for bids for their two single largest transportation contracts, non-handicapped public and non-public K-8 grades. These contracts required prospective bidders to transport approximately 2,700 students on an estimated 71 vehicles. Prospective bidders were supplied with school locations, class session times, and the approximate number of students per location. However, the actual bus routes were not published, since the provider determines routes with the schools after the bid award.

These contracts were awarded in 1986 and have been extended on an annual basis through the 1991-92 school year. For the 1991-92 school year, the public K-8 contract was valued at $1.5 million and

the non-public K-8 contract at $372,000. District officials advertised for bids for these two contracts on May 15, 1986. The bid opening was held on May 29, 1986, which gave contractors only 14 days to submit their bids. The transportation services to be provided under the contract were required to begin on September 3, 1986. Only one contractor submitted a bid on the two contracts - the contractor who was then providing the majority of the District's transportation services.

The Education Department authorizes and encourages districts to award transportation contracts for up to a five-year period.

The Education Department authorizes and encourages districts to award transportation contracts for up to a five-year period. However, the District negotiates one-year contracts and extends them indefinitely; this practice may inhibit competition, since a new contractor may not recover start-up costs in one year. We believe that multi-year contracts would attract additional bidders.

The District Does Not Monitor Transportation Routes and Fuel Consumption Needs

District management should ensure that contractors transport pupils in the most economical and efficient manner. We found that the District needs to improve its monitoring of all transportation routes and related fuel consumption to ensure that contractors meet these criteria.

Transportation Routes

The transportation contractor independently determines and submits all routes and related mileage information to the District. However, we found that District business administrators do not formally review the accuracy, reasonableness and efficiency of these routes. Therefore, District officials cannot be assured that its contractors were providing transportation services to the District at the lowest reasonable cost.

Our review of the contractor's route sheets revealed that the bus route mileages for the Church Street school were substantially greater than would be expected for normal bus routes in a district with a geographic area of only about 11.25 square miles. In fact, the total daily mileage reported by the contractor for the four Church Street routes in 1990-91 was 206 miles round trip, or an average of 51 miles per trip. The contractor reported that the Church Street #1 route alone was 68 miles round trip.

We brought the excessive mileage to the attention of District officials. The District contacted the contractor and obtained a revised mileage

total of 53 miles round trip for the four Church Street routes, a decrease of 153 miles (about 74 percent) from the mileage originally reported. We believe that the contractor did not overbill the District in this case; however, we estimate that the District would have paid for an extra 7,800 gallons of gasoline, at a cost of $6,800, over the course of a year if the contractor had submitted fuel reimbursement claims based on the overstated mileage.

Although our tests of two other transportation routes found only minor discrepancies, we maintain that District business administrators should critically review the accuracy of all transportation routes submitted by transportation contractors.

Fuel Consumption

Pursuant to contract, the District provides the contractors with the fuel used to operate the vehicles. The District purchases gasoline and diesel fuel under State contract and has it delivered directly to the contractors' facilities. For the 1990-91 school year, the District provided 129,514 gallons of fuel at a cost of $113,017. The District should require that contractors demonstrate that the amount of fuel provided by the District is commensurate with the transportation services provided to the District.

However, we found that the District had no system to monitor the amounts of fuel actually used to provide District transportation. Because the contractors determine their own bus routes, as well as provide transportation services for other clients, there is opportunity for the transportation contractors to make excessive fuel claims.

District officials acknowledged that the fuel standards were outdated and had not been evaluated for several years.

The contractor is allowed one gallon of gasoline for each three and one-half miles, and one gallon of diesel fuel for each five miles driven on district business. District officials acknowledged that the fuel standards were outdated and had not been evaluated for several years. Officials also agreed that older fuel standards might not take into account the fuel efficiency of later model buses. The use of outdated fuel consumption standards, combined with weak monitoring of the contractor's fuel use, prevents District officials from knowing accurately how much fuel is actually needed by the contractors to operate their vehicles.

Recommendations

6. Consider rebidding transportation contracts as they expire, as a means of increasing competition and reducing costs.

7. Establish transportation contracting procedures which:

   - provide an adequate amount of time between the date that bid notices are published and the date of the bid opening so that providers can prepare responsive bids;

   - provide an adequate period of time between the date of the contract award and the date that service is required so that new providers can purchase vehicles and/or hire qualified drivers, as necessary; and

   - facilitate the award of multi-year transportation contracts.

8. Develop a formal system to:

   - review bus route mileage totals submitted by the contractors for accuracy and efficiency; and

   - assess the reasonableness of the contractor's fuel usage.

9. Develop up-to-date fuel use standards for vehicles used by contractors to transport District students.

Controls Over Equipment

District management has the responsibility to adequately protect an equipment inventory valued at $11.8 million. However, the District lacks such basic equipment controls as written policies and procedures, identification tags, relocation or transfer records, and periodic physical inventories. Furthermore, the District's inventory control records are neither up-to-date nor accurate. We believe that the absence of basic equipment controls significantly increases the risk of theft, loss or misuse of District equipment.

The District Lacks Formal Policies and Basic Procedures

Management must properly control equipment, a valuable asset. A District policy statement, issued in 1971, states that the superintendent shall keep accurate property records as prescribed by the State Comptroller. Effective equipment control is normally established through a comprehensive inventory system, such as the one outlined in the State Comptroller's Financial Management Guide. The objectives of an equipment inventory system include: creating a record of the location and value of equipment, fixing responsibility for equipment, and providing management with reliable information concerning equipment utilization, replacement cost and necessary insurance coverage.

... District management has not developed a reliable system to control and protect equipment.

We determined that District management has not developed a reliable system to control and protect equipment. The District does not have formal policies and procedures for equipment control. Moreover, critical elements of a reliable inventory system, such as assignment of responsibility, written procedures for adding and deleting equipment, tracking the movement of equipment, identifying the equipment as District property, and periodic verification of the inventory records have not been developed or are not working properly. Also, because the recordkeeping system is unreliable, we believe that it has little value to District management for planning and approving equipment purchases, thereby increasing the likelihood that unneeded equipment will be purchased.

Formal Responsibility for Equipment Has Not Been Established

The Board of Education and the Superintendent have overall responsibility to establish District policy for equipment control and to designate a qualified employee as the District's property control manager. The property control manager should be responsible for designing and implementing the equipment control system. Additionally, the property control manager routinely assigns the responsibility for safeguarding equipment to specific location managers, such as building principals or department chairs.

Because neither the Board nor the Superintendent has formally designated a property control manager, the District's Administrative Assistant for Business has assumed equipment control responsibility. However, neither she nor senior District officials have assigned personnel to be responsible for District equipment or assigned staff to perform periodic physical inventories of equipment. Therefore, the District has not established adequate accountability for District-owned equipment.

Property Identification Tags Should Be Used

A basic element of an equipment control system is the identification of the equipment as the property of a specific entity. This is often accomplished by attaching sequentially-numbered adhesive tags to pieces of equipment which exceed a pre-determined cost. However, we found that the District does not tag or otherwise identify its equipment as District property. As a result, the District cannot identify specific pieces of District-owned equipment or perform a meaningful physical inventory of equipment.

Another means management can use to identify a specific piece of equipment is a discrete manufacturer's serial number. Televisions, computers and video cassette recorders, for example, often have a manufacturer's serial number. District staff, however, generally do not record equipment serial numbers on receiving reports or other District records. As a result, the District's inventory records often cannot be used to account for specific items of equipment. The absence of equipment identification significantly reduces the usefulness of the District's inventory control system.

Periodic Physical Inventories Are Not Taken

Another basic element of an effective equipment inventory system is to perform a periodic physical inventory. A periodic physical inventory is necessary to verify the accuracy of inventory records and to ensure that the inventory control system adequately safeguards equipment from theft, loss or abuse. At minimum, a portion of the inventory should be tested on a periodic basis. The District, however, has not taken a partial or complete physical inventory since their consultant was hired to take an inventory in 1985. We believe that a periodic physical inventory would have disclosed some of the problems we identified in this report and provided District officials with an opportunity to address those problems timely. (District officials advised us that they plan to conduct a physical inventory in early 1993.)

The Movement of Equipment Is Not Tracked

District management has not established formal procedures for tracking the movement of equipment among facilities or for approving and recording the movement of equipment from District property. During our audit, we identified five pieces of equipment, valued at $3,976, that were transferred among District facilities. There were no records of these transfers. In another case, we were told that a teacher took a camcorder home. There was no documentation to approve this arrangement.

The District Could Not Account for a Substantial Amount of Equipment that Was Selected for Verification

We determined that the equipment inventory records are not accurate and up-to-date. A significant number of equipment items were not recorded on the District's inventory records. We also attempted to verify the presence of selected District equipment items. We were unable to locate many of the items that we selected for review. We conclude that the disparities identified through our equipment inventory tests resulted from the weaknesses in the District's equipment control system, as detailed previously in this report.

Inventory Records Are Not Current or Accurate

The District owns equipment which, according to the equipment inventory records prepared by their consultant, cost approximately $9.1 million and has an estimated replacement value of $15.5 million. However, the equipment cost is $2.7 million less than the $11.8 million reported on the financial statements. District officials explained that the difference can be attributed to equipment items that cost less than $100, equipment components, and other small items that are not recorded by their consultant. Although this may be true, we believe that the existing control weaknesses contribute to the differences in equipment value.

... the District's equipment control records are not accurate and up-to-date.

For several years, District officials have paid a consultant to keep the equipment inventory records current. However, we found that the District's equipment control records are not accurate and up-to-date. Deficiencies include unrecorded equipment purchases, missing equipment and undocumented equipment transfers. In addition, we identified a significant number of equipment items that were not listed on the inventory.

We also determined that neither the District nor the consultant removes lost, stolen or discarded equipment from the current inventory records. We identified nine items (a camcorder, a camera, video cassette recorders, etc.) totaling $4,262 that the District claims had been stolen. Five items were formally reported as stolen.

District officials assumed that the other four items were stolen, although these thefts were not reported. Nevertheless, all nine stolen items remained on the inventory records. Three other items had been discarded but were not removed from the inventory records. Moreover, the District had no documentation of prior approval to discard the items.

Physical Verification of Equipment

From the District's inventory records, we selected a judgmental sample of 137 equipment items located at the District's nine schools and two administration buildings. We visited each location to verify the equipment to the records.

We were able to positively identify only 35 (26 percent) of the 137 sampled items as present in the locations indicated by the inventory records.

- We were able to positively identify only 35 (26 percent) of the 137 sampled items as present in the locations indicated by the inventory records.
- We found another 52 items (38 percent) in locations other than those indicated by the inventory records.
- As stated previously, there were no records to document the theft of four of the nine stolen items or any of the three discarded items.
- At least 14 of the remaining 38 items could not be located. We were unable to positively identify 24 items because the District does not use an identification tag system and the inventory records lacked distinguishing information (as detailed earlier in this report) for the items in question.

A total of 23 items (17 percent) were missing: 9 items had been stolen and another 14 items could not be located. These 23 items, including items such as televisions, cameras, computers, cassette players and video cassette recorders, cost $10,613.

District officials advised us that the location listed on the equipment inventory records is based on the corresponding purchase order locations. Frequently, this is a central receiving unit in a District facility. Since these items are generally moved to other program locations, the actual location of many items is different from that indicated on the records. This condition significantly reduces the usefulness of the equipment inventory control system.

Equipment Could Not Be Traced To The Inventory Records

We judgmentally selected 52 equipment items in District facilities and attempted to trace them to the inventory records. However, we were able to positively identify only 18 (35 percent) of the 52 items on the inventory listing at the time of our review. Eleven other items were purchased during the current school year and had not yet been posted to the inventory system. At least 5 of the remaining 23 items were not included on the inventory listing. We were unable to positively match 18 other pieces of equipment to the listing, due to the absence of identification tags or other distinguishing information. The unlisted equipment included valuable and marketable items such as televisions, computers, cassette players and video cassette recorders.

Equipment Purchases Are Not Added To The Inventory Records

We selected a judgmental sample of 45 purchase orders for equipment the District bought during the 1990-91 fiscal year. We attempted to locate the equipment and verify that the items had been recorded on the inventory system. We accounted for 44 of the 45 items selected for testing. However, we were able to positively trace only 27 of the 45 items to the inventory records at the time of our review. District officials advised us that 5 of the remaining 18 items had been received after the cut-off date for updating the inventory record for the 1990-91 year. We were unable to trace the other 13 items (which cost $6,758) to the inventory listing. The 13 items included seven combination video cassette recorder/ televisions, two cassette recorders, a musical instrument, a vacuum, a modem, and a camera.

Because the District did not add this equipment to the inventory records, there is a greater risk that any theft, loss, or abuse of the equipment would go undetected.

Recommendations

10. Formally designate a property control manager to maintain the equipment inventory system.

11. Establish a formal equipment inventory control system. The system should include (but not be limited to):

    a. delegating responsibility for equipment at building level;

    b. prompt and accurate posting of equipment purchases to the inventory system;

    c. prompt reporting of lost, stolen, or discarded equipment. Ensure that inventory records are properly adjusted, as necessary;

    d. reporting equipment transfers among and within District facilities;

    e. the approval and recording of equipment removed from District property for loans or repairs; and

    f. taking periodic physical inventories and updating the central inventory records accordingly.

12. Develop formal equipment control policies and procedures and distribute them to District employees.

13. Institute an identification system for equipment which includes the use of serially-numbered tags which cannot be easily removed.

14. Record the model and the manufacturer's serial number of equipment on receiving reports so that it may be included in the inventory record.

Controls Over Sick Leave Use

Among other responsibilities, the District's Personnel Office administers the District's time and attendance policies. We found that management has not established a formal sick leave policy or a comprehensive sick leave monitoring program, and therefore, cannot identify and control apparent sick leave abuse by District employees. Specifically, we found questionable patterns of sick leave use, little documentation to support sick leave use, and no evidence that management counsels or reprimands employees for abuses of sick leave.

Sick leave is a benefit available to employees to protect them from loss of income in the event of personal illness or disability, visits to doctors, and illness or death in the family. The improper use of sick leave has negative effects, such as reassignment or delay of work, additional costs for overtime pay, and low morale. Management's failure to address sick leave abuse promotes on environment in which improper sick leave usage is acceptable. It is, therefore, important that District management establish a formal policy that denotes appropriate uses of sick leave. To ensure compliance with the policy, management should monitor employees' use of sick leave.

The District provides its school principals and supervisors with an annual detailed summary of each employee's leave history for the past year. District policy leaves the identification of possible sick leave abuse to the discretion of the school principal or supervisor.

We found, however, that the District has no criteria to identify potential sick leave abuse. For example, management does not specify an amount of sick leave use that would automatically subject a District employee to a higher level of sick leave oversight. Furthermore, the District has no formal procedures which direct supervisors how to handle apparent abuses when they occur.

Although these 43 employees comprised only 9 percent of the District's non-faculty staff, they accounted for 33 percent of the total sick leave used by non-faculty staff.

We analyzed the amounts of sick leave used by the District's 483 full and part-time non-faculty employees for the year ended June 30, 1991 to provide some perspective on the number of employees who may be sick leave abusers.

Our analysis indicates that non-faculty employees used 3,897.5 days of sick leave during the 1990-91 school year, for an average of 8.1 sick days per employee. We estimate that the District's cost for the 3,897.5 days of sick leave used during the 1990-91 year was $289,000, excluding fringe benefits. We found that 203 (42 percent) of these employees used eight or more days of sick leave and accounted for

78 percent of total sick leave used by this staff. Forty-three non-faculty employees used 17 or more days of sick leave during the year. Although these 43 employees comprised only 9 percent of the District's non-faculty staff, they accounted for 33 percent of the total sick leave used by non- faculty staff.

Range of Days	Number of Employees	Total Sick Leave Days
0-<8	280 (58%)	846.5 (22%)
8-<17	160 (33%)	1,745.5 (45%)
17 or more	43 (9%)	1,305.5 (33%)
Total	483 (100%)	3,897.5 (100%)

Our analysis indicates that many District employees used large amounts of their sick leave accruals. Moreover, the analysis clearly illustrates why the District needs to develop a formal sick leave policy and sick leave monitoring program.

Further, the District does not have a formal program to review the frequency, pattern and duration of employee sick leave use to identify apparent sick leave abusers.

We selected a judgmental sample of 25 District employees (including three faculty members) with low sick leave balances, for indications of potential abuse. We reviewed the time and attendance records of these employees. The results of our review are summarized as follows:

- 21 employees (84 percent) used sick leave days equal to or greater than their annual accruals for the 1990-91 year. Ten of these employees completely exhausted their opening balances for that year.

- Five employees exhibited patterns or trends of abuse, taking six or more days of sick leave on Mondays and/or Fridays.

- Two employees, each of whom had worked 19 years for the District, had no sick leave credits at the end of the 1990-91 year.

- Only one of the 25 employees had any documentation on file to support sick leave taken.

... the 25 employees averaged nearly 10 years of employment with the District. Yet, the average sick leave balance for these employees at the end of the 1990-91 year was only 24.5 days.

There was no evidence that any of the 25 employees received counseling from District officials for sick leave abuse. (District officials stated that, although a union contract precludes formal sick leave counseling, informal counseling takes place at the building level.)

It is worthy to note that the 25 employees averaged nearly 10 years of employment with the District. Yet, the average sick leave balance for these employees at the end of the 1990-91 year was only 24.5 days. Despite the high amounts and questionable patterns of sick leave use by these employees, we found that District officials did not investigate whether sick leave was used inappropriately. Consequently, we did not find any evidence that District officials tried to curtail these patterns of apparent sick leave abuse.

Significant sick leave abuse can force an organization to incur extra overtime costs or to hire additional staff, or both. We believe that the District's lack of control over sick leave has resulted in unnecessary personnel costs to District taxpayers. Moreover, because the District's controls were poor, the risk is high that a significant portion of the cost associated with sick leave use was unnecessary.

Recommendations

15. Develop and adopt formal policies and procedures regarding the use of sick leave credits. Prepare written guidelines to instruct supervisors how to investigate, address, and correct potential sick leave abuse.

16. Establish a comprehensive sick leave leave monitoring program.

Response of District Officials to Audit

District officials chose not to submit a formal response to the findings and recommendations contained in a draft of this report. Generally, we append the auditee's formal response to the final report. District officials did, however, provide us with written comments on many of the details presented in the report. In addition, we met with District officials to discuss the draft report. We have taken into consideration the informal comments of District officials in preparing this report.

District officials indicated that a number of the issues presented in our report were significantly impacted by the District's extensive construction/renovation program and turnover in key administrative positions. We acknowledged these factors in the report. In addition, we believe that District officials are now in a better position to address the issues presented in the report. Moreover, we strongly urge District officials to implement the report's recommendations.